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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

VENDING TRADE CLASS REVIEW

DECEMBER 14, 1983

MERCHANDISING PLANNING

2061554411

Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

UNIVERSE VENDING MACHINES

UNIVERSE	750,000		
PM PLAN D	536,000		
PAYMENT SERVICE	294,000 TRU-CHECK (55%)	196,000 DATAVEND (37%)	46,000 OTHERS (8%)

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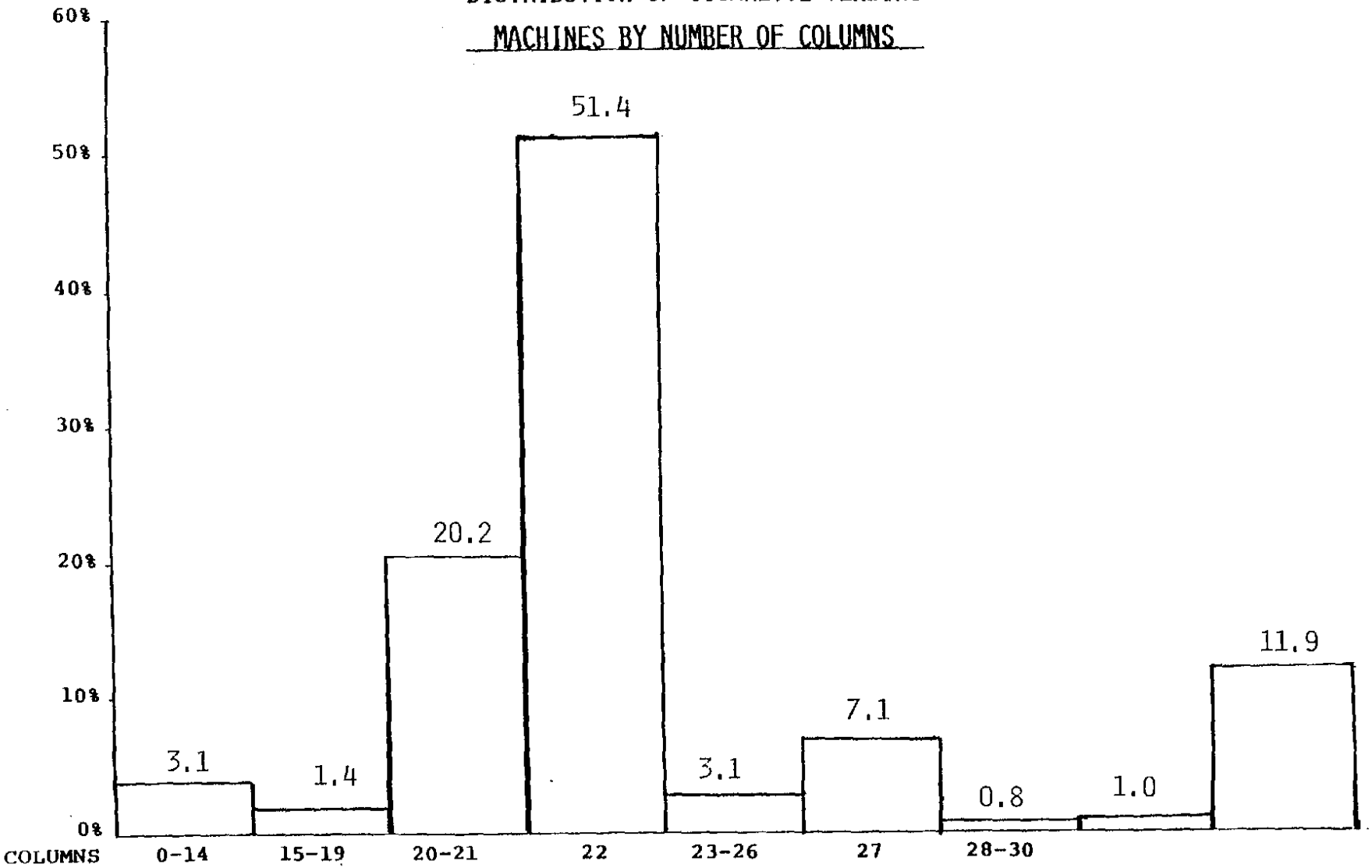
Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

% OF
CHINES

DISTRIBUTION OF CIGARETTE VENDING MACHINES BY NUMBER OF COLUMNS



SOURCE: SPACE VENDOR ACCOUNT SYSTEM

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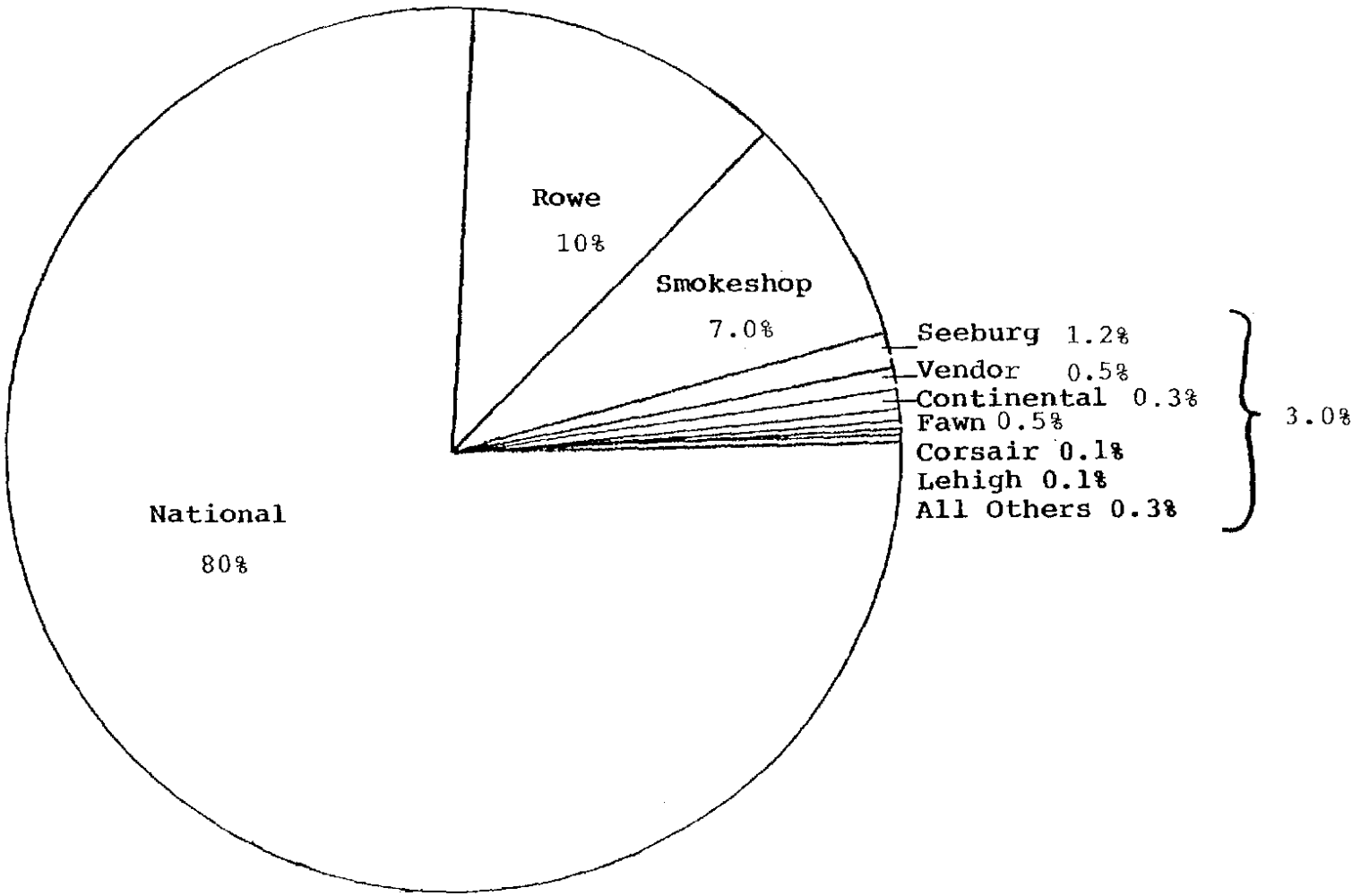
Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

DISTRIBUTION OF CIGARETTE VENDING MACHINES BY MANUFACTURER



SOURCE: DATAVEND, FOR PERCENT BY MFR. WEIGHTED BY NUMBER OF MACHINES IN SECTION PER VENDOR SUMMARY, SPACE.

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

MACHINES

98% OF MACHINES ARE 8+ YEARS OLD AND

GENERALLY FULLY DEPRECIATED

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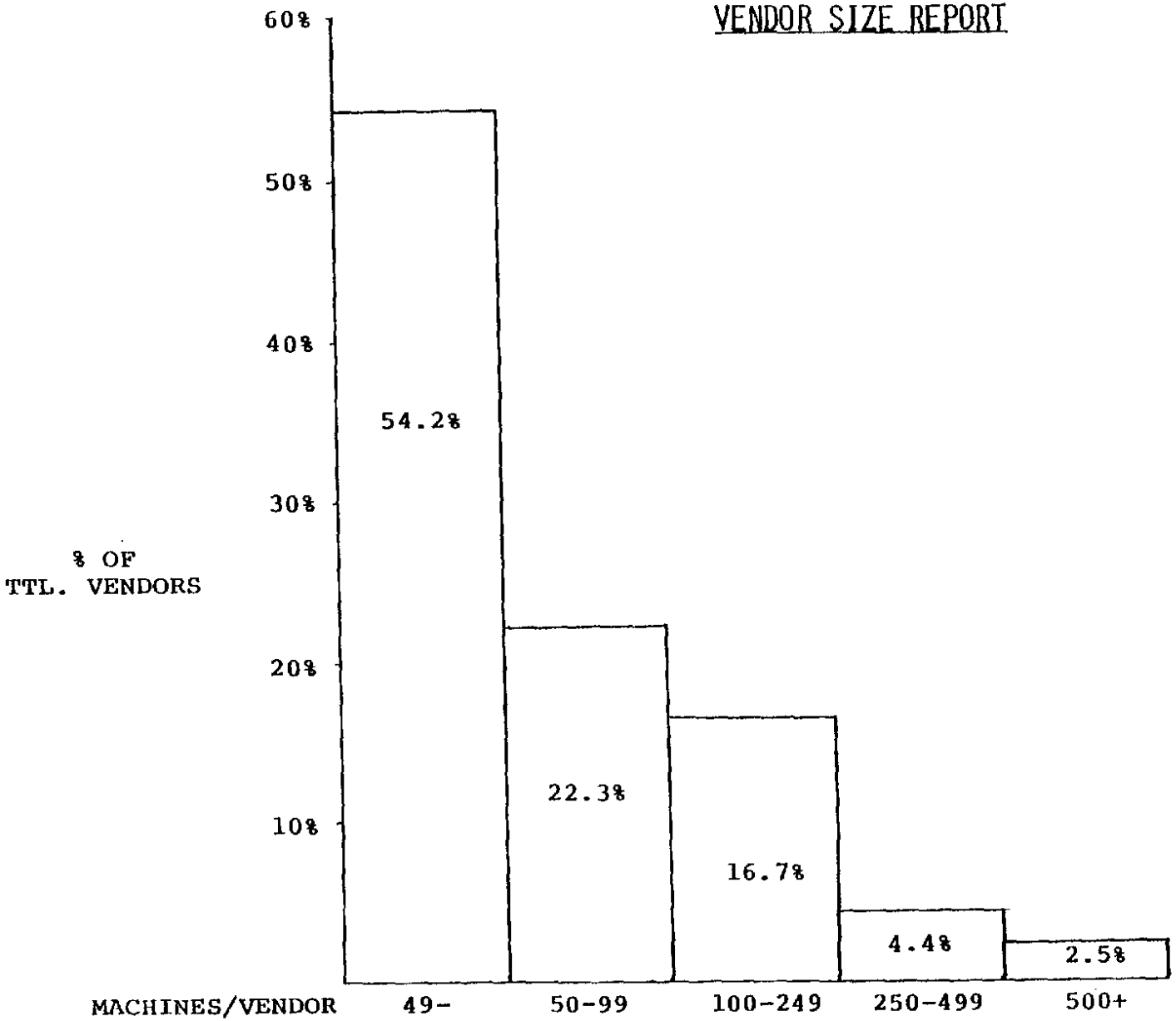
Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

VENDOR SIZE REPORT



SOURCE: SPACE VENDOR ACCOUNT SYSTEM

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

SHIFT IN VENDOR PROFILE

	% Vending Ind. Sales		% PM Direct Vendor Sales	
	TOBACCO	FOOD	TOBACCO	FULL-LINE
1978	26.8	13.2	46.7	53.3
1979	26.0	12.8	36.0	64.0
1980	21.0	28.9	35.2	64.8
1981	20.3	29.4	32.1	67.9
1982	14.3	33.5	33.0	67.0

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

INCOME STATEMENT OF AN "AVERAGE" VENDOR

	Per Pack Sold	%
Sales	$1.15	100.0%
Cost of Sales	.72	(62.6)
Gross Profit	0.43	37.4
Payroll	(0.25)	(21.7)
Commissions	(0.10)	(8.7)
Depreciation	(0.01)	(0.9)
Other Op. Expenses	(0.06)	(5.2)
Other Income	0.02	1.7
Pre-tax Income	$0.03	2.6%

Annual Machine Income
@ 50 Packs Per Week $78.00

Average Manufacturer's
Payments Per Machine $53.00 - OR - 68% OF INCOME

PM Estimate

Source: NAMA

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

VENDING CUSTOMERS

	Incidence of* Purchase	% of* Customers	Share
"Heavy" Vending Purchasers	2/3	5%	2.8%
"Sometime" Vending Purchasers	Pack Per Week	22	2.4
Occassional / Never	Pack Per Month	73	1.4
		100.0%	6.6%

*Source: National Tracking Study

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

SIZE

2.0 BILLION PURCHASES/YEAR

6.6% OF INDUSTRY

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

TRENDS

FROM 1979 TO 1983

MACHINES	+7%
PACK/WEEK	-29%
SHARE OF MARKET	-36%

OUTLOOK

SHARE OF MARKET DECLINE IS LIKELY TO CONTINUE

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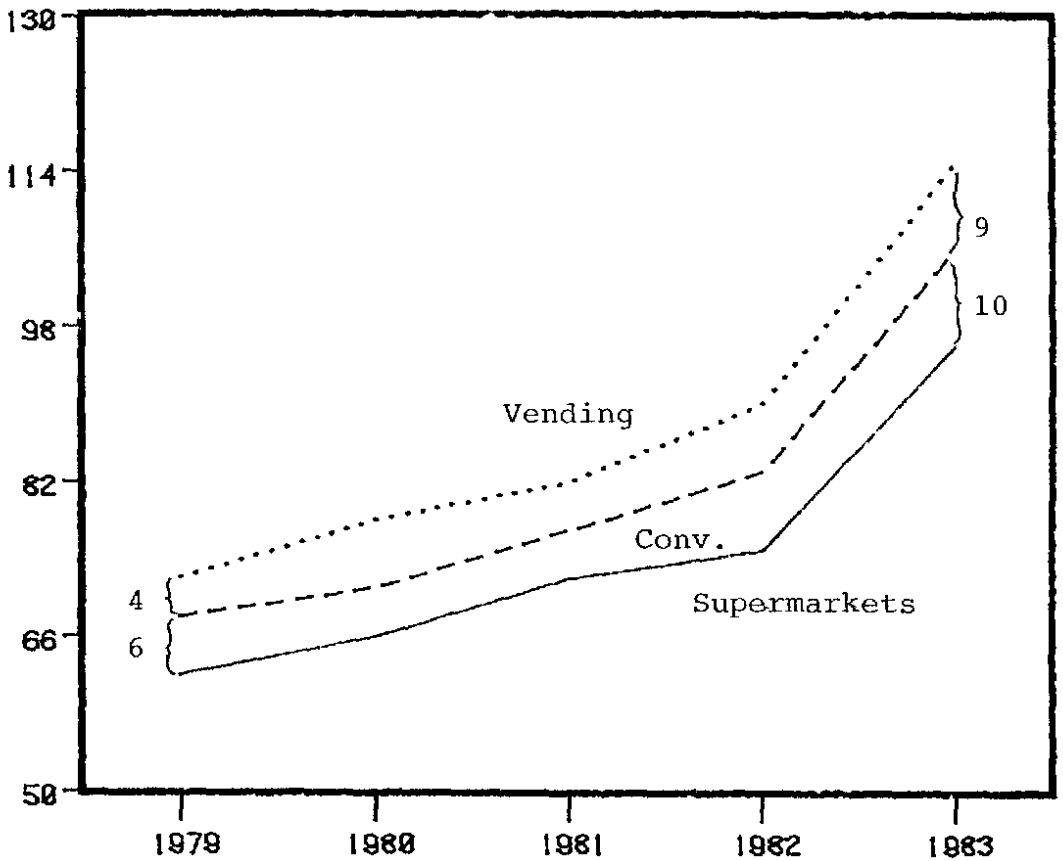
Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

PACK PRICE BY TRADE CLASS



SOURCE: STATE TAX AND PRICING REPORT

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

VENDING DYNAMICS

- VENDING PLACEMENTS ARE A FUNCTION OF MARKET SHARE.
- MACHINE SALES SHARES ARE IN PROPORTION TO MARKET SHARE BUT INFLATED DUE TO LIMITED BRAND AVAILABILITY (54 SOM).
- SHARE OF COLUMNS DOES NOT CORRELATE TO SHARE OF SALES.

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

THE ONLY BRAND "OVERPLACED" IN VENDING IS MERIT FILTERS, THE RESULT OF THE PLAN D AND DATAVEND REQUIREMENTS.

SERVICE	# PM BRANDS/LOCATION
DATAVEND	7.7
MANUAL/OTHER	6.6
TRU-CHECK	6.0

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

(1) No other company has demonstrated an ability to retain vending placements in excess of market share.

(2) Only American Tobacco brands are consistently under placed.

(3) Brands below 0.5 market share are not viable vending brands.

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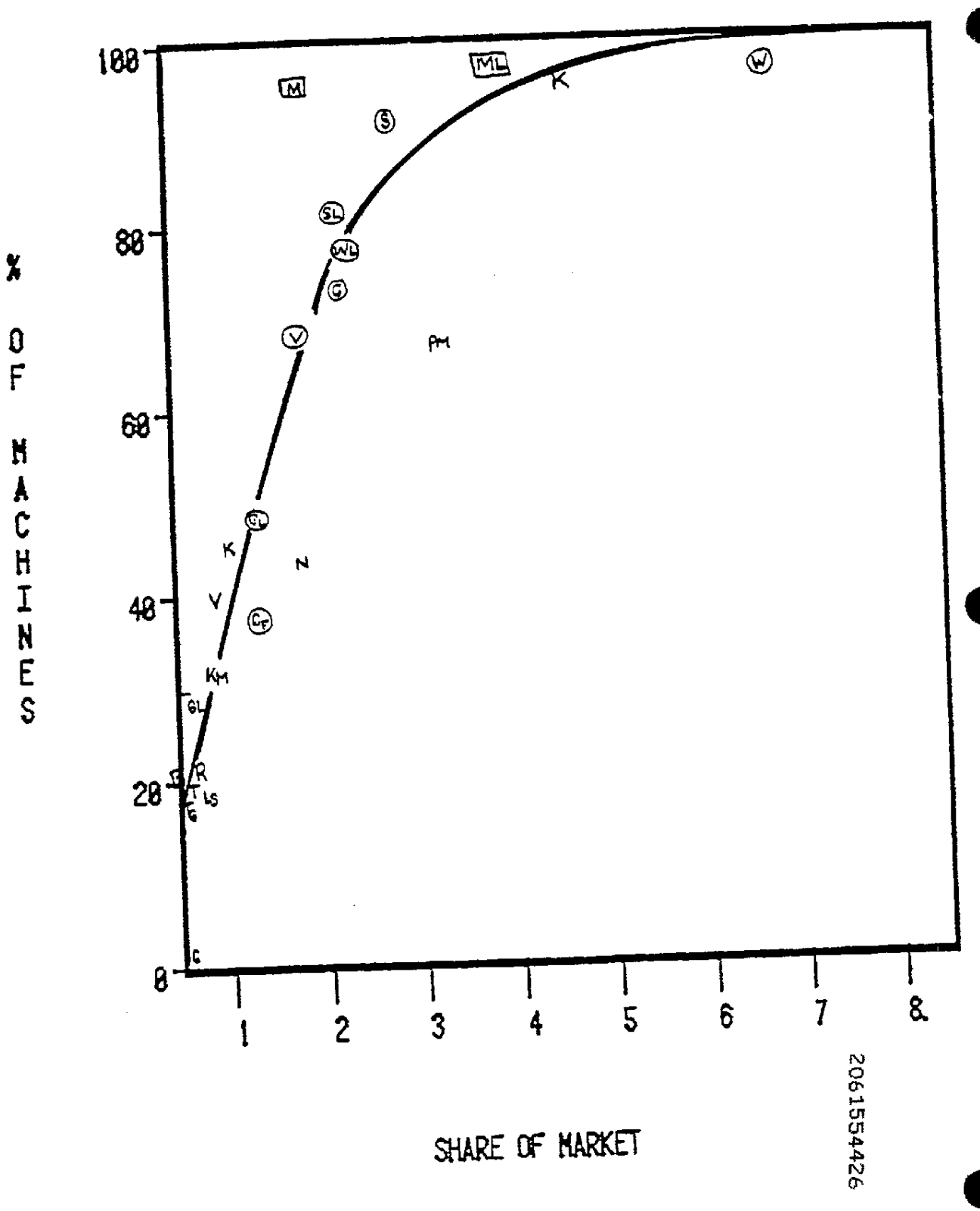
Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

VENDING PLACEMENT DISTRIBUTION



SOURCE: DATAVEND

Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

PM-USA VENDING BRAND SHARE

	3rd Qtr. '83 MSA Share	Machine Penetration	Effective Machine Share	% of Vending Sales
Marlboro Red	11.12%	99%	11.01%	20.39%
Marlboro Lights	4.04	95	3.84	7.11
Merit Regular	1.76	93	1.64	3.03
Sub-Total	16.92	91	16.49	30.53
Marlboro 100's	2.67%	64%	1.71%	3.16%
B & H 100's	1.26	65	.82	1.52
B & H 100's Menthol	1.14	41	.47	.87
Marlboro Lts. 100's	1.74	33	.57	1.06
Merit 100's	1.17	28	.33	.61
Other	9.00	7	.63	1.17
	33.90	N/A	21.02	38.92

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

R. J. REYNOLDS

	3RD QTR. MSA SHARE	MACHINE PENETRATION	EFFECTIVE MACHINE SHARE	SHARE OF VENDING
WINSTON	6.18%	98%	6.06%	11.22%
SALEM	2.26	91	2.06	3.81
WINSTON LTS.	2.15	80	1.72	3.19
CAMEL	2.01	97	1.95	3.61
WINSTON 100'S	2.00	69	1.38	2.56
SALEM LTS.	1.97	84	1.65	3.06
VANTAGE	1.73	67	1.16	2.15
SALEM LTS. 100'S	1.60	45	.72	1.33
SALEM 100'S	1.49	63	.94	1.74
WINSTON LTS. 100'S	1.42	31	.44	.81
CAMEL FILTER	1.04	43	.45	.83
CAMEL LTS.	1.15	55	.63	1.17
VANTAGE 100'S	.83	10	.08	.15
OTHER	6.17	3	.19	.35
COMPANY SHARE	32.00%	N/A	19.43%	35.98%

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

VENDING LINEUP

	Average # Columns	Share Of Vending Sales	3rd Qtr. '83 MSA Share
PM-USA	6.7	38.9%	33.9%
RJR	9.5	36.0	32.0
B & W	2.5	11.6	12.2
AMERICAN	1.3	6.3	8.7
LORILLARD	1.9	7.0	8.9
LIGGETT	0.1	0.2	4.3
		100.0%	100.0%

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

PM-USA VENDING SALES

- 38.9 OF VENDING SALES
- 17.4 BILLION UNITS OF PM PRODUCTS
- 8.5% OF PM UNIT SALES

VALUE OF VENDING SALES

	3RD QTR. '83 MSA SOM	PM VENDING UNITS	AVAIL PROFIT $10.40/M	LESS PLAN D	NET MARGIN
MARLBORO RED	11.1	9.1 BIL	$94.6 MIL	-	$94.6 MIL
MARLBORO LIGHTS	4.0	3.2	33.3	-	33.3
MERIT REGULAR	1.8	1.4	14.6	-	14.6
SUB-TOTAL	16.9	13.7 BIL	142.5 MIL	-	$142.5 MIL
MARLBORO 100's	2.7	1.4 BIL	$14.6 MIL	$3.2 MIL	$11.4 MIL
B & H 100's	1.3	0.7	7.3	2.5	4.8 MIL
OTHER	13.9	1.6	16.6	6.1	10.5
SUB-TOTAL		3.7 BIL	38.5 MIL	$11.8 MIL	$26.7 MIL
TOTAL		17.4 BIL	$181 MIL	$11.8 MIL	$169.2 MIL

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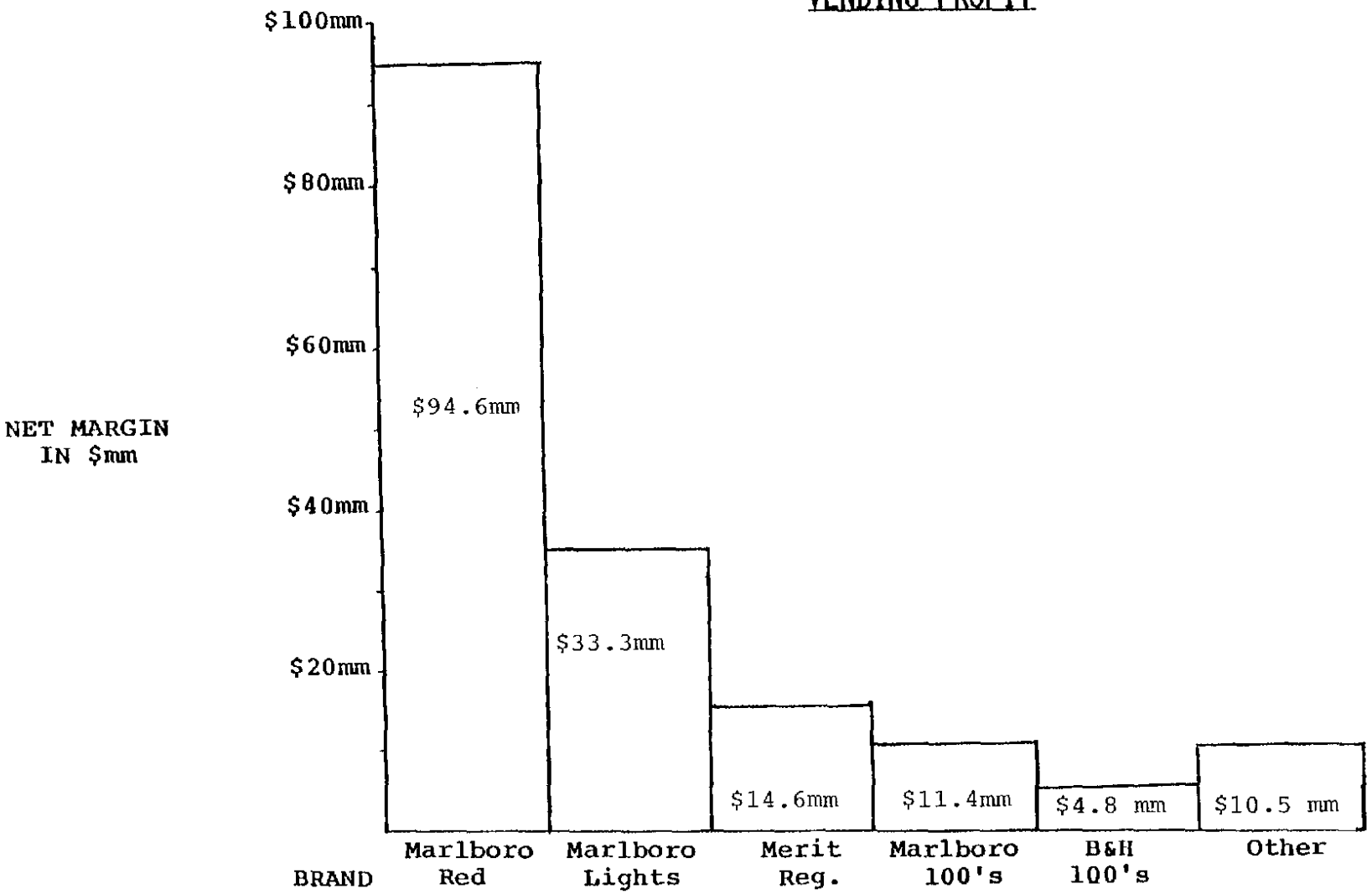
Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

PM

VENDING PROFIT



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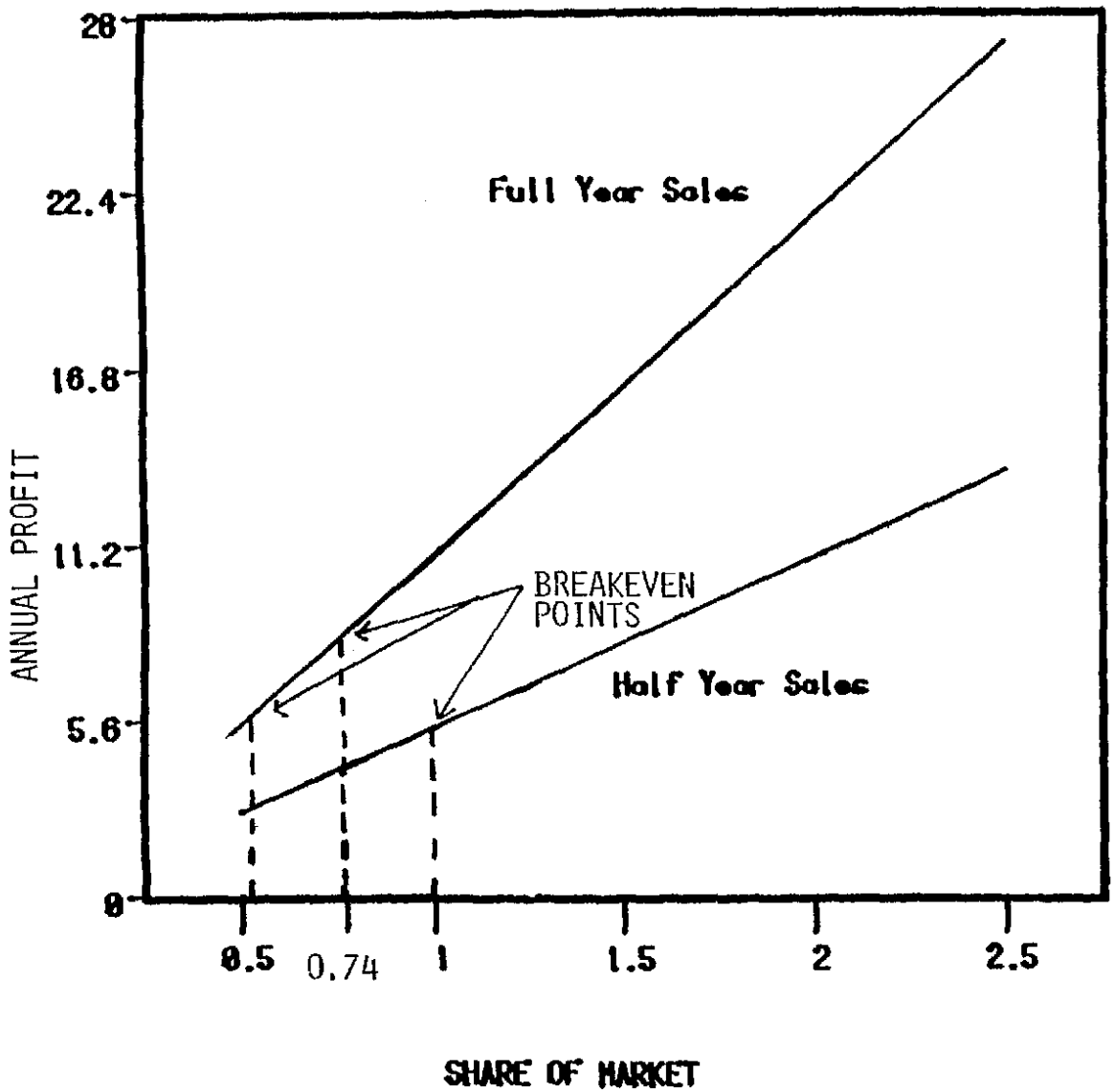
ECONOMICS OF BRAND PLACEMENT



BREAKEVEN POINTS

FULL-YEAR SALES

VS. $7 PLAN D: 0.52% SOM

VS. $7 PLAN D + $3 RDA : 0.74% SOM

HALF-YEAR SALES

VS. $3.50 PLAN D + $3 RDA : 1.0% SOM

FOR EACH ADDED $1 -- 0.1 ADDITIONAL SHARE REQUIRED

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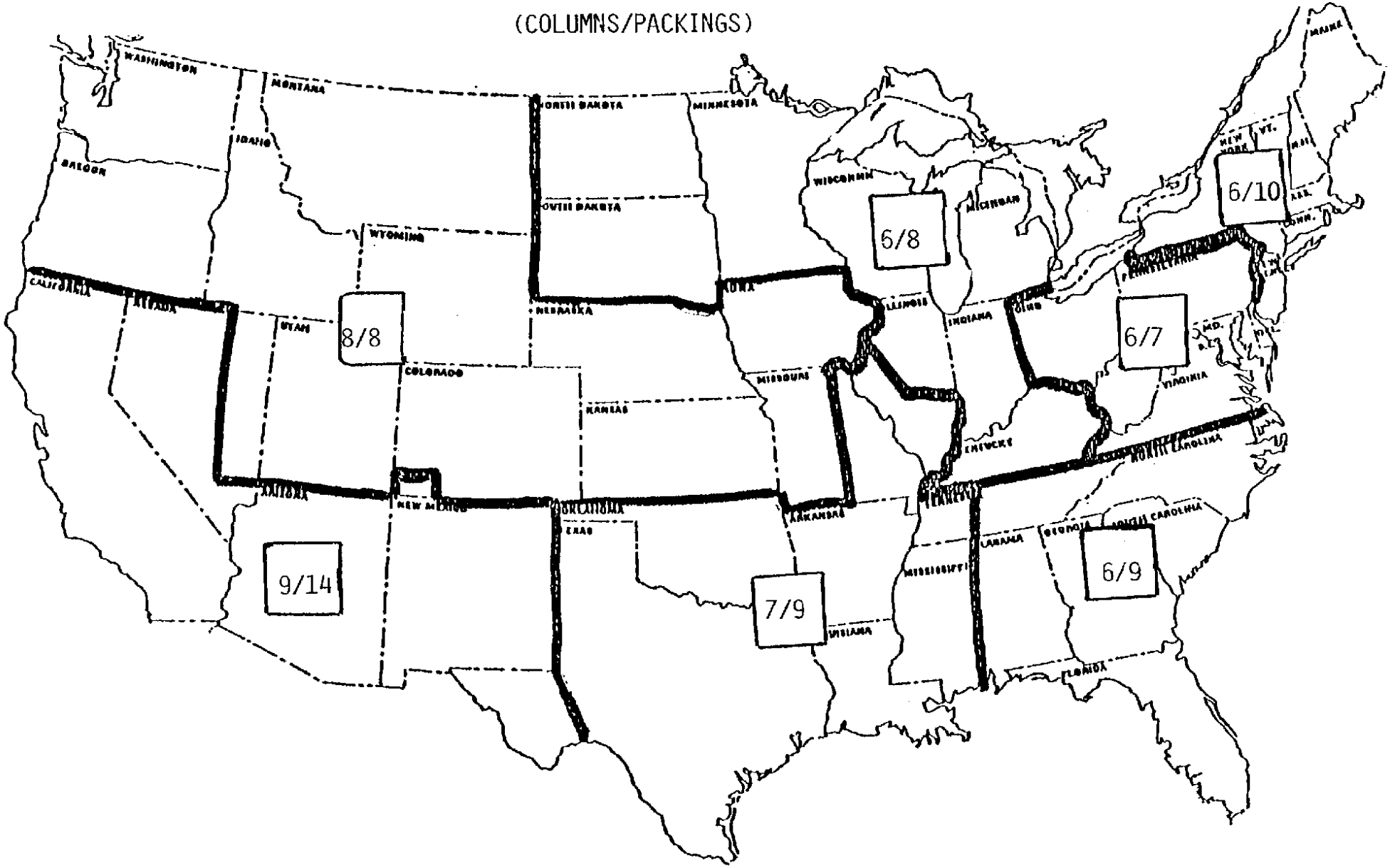
Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

COMPARISON OF PM COLUMNS

WITH NUMBER OF PM PACKINGS + 1.0% SOM

(COLUMNS/PACKINGS)



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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

IF PM'S GOAL IS TO ENSURE FUTURE PLACEMENTS WILL BE PROFITABLE, PM-USA SHOULD ONLY QUALIFY PACKINGS:

- WITH SOM 0.52%+ FOR PLAN D
- WITH SOM 1.0%+ FOR RDA

RIDE-WITH's SHOULD BE CONSISTENT WITH THE ABOVE AND LIMITED TO:

A. DATAVEND CUSTOMERS (WHEN REQUIRED).

B. VENDORS WHERE MULTIPLE PLACEMENTS ARE INVOLVED.

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

SUMMARY

- VENDING INDUSTRY UNIT SALES AND PROFITABILITY ARE DECLINING: THIS WILL IMPACT THE CIGARETTE BUSINESS.

- VENDORS WILL PROBABLY INCREASINGLY FOCUS ON PRICE AND PAYMENTS AS MEANS TO REMAIN PROFITABLE.

- RJR'S BRAND LINEUP IS BETTER SUITED TO COMMAND DISTRIBUTION DOMINANCE RATHER THAN SALES OR SHARE DOMINANCE.

- EXCEPT IN FILLING REGIONAL GAPS, ADDING NEW COLUMNS OF PM BRANDS LIKELY WILL NOT RESULT IN A PROFIT.

2061554436

Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004

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Source: https://www.industrydocuments.ucsf.edu/docs/shgn0004